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Session # 6

Unexplained Side of Resources: Fellowships, Assistantships, 529 Plans, etc.

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Overview

- Statutory Definitions:
 - Income
 - Adjusted Gross Income
 - Untaxed income and benefits
 - Exclusions
 - Other Financial Assistance
- Earnings from Work
- Internal Revenue Code

Before TRA 1997

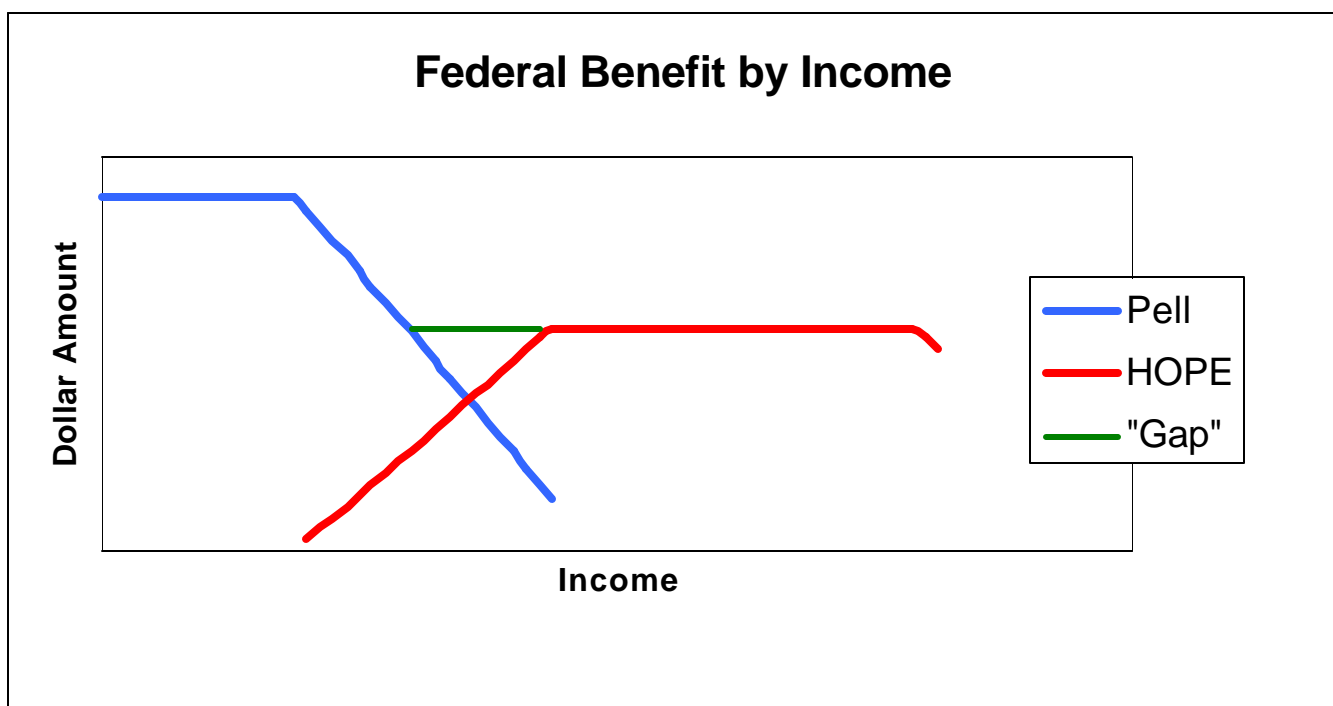
- Qualified Scholarships
- Exclusions for Series EE US Savings Bonds
- Deduction for Education Expenses
- Income Exclusion for Employer-provided Assistance
- Student Loan Forgiveness
- Qualified State Tuition Programs



Policy Development

- HOPE Scholarship
 - \$1,500 Refundable Tax Credit
 - Enrolled at Least Half-time
 - First Two Years of College
 - Remain Drug-free
 - Maintain a "B" Average
- Tax Deduction
 - First \$5,000 of Expenses (\$10,000 in 2003)
 - Any Postsecondary Education

Policy Development (cont'd)





Policy Development (cont'd)

- **HOPE Tax Credit**
 - \$1,500 Tax Credit for Educational Expenses (100% of First \$1,000, 50% of Second \$1,000)
- **Lifetime Learning Tax Credit**
 - 20% of the First \$5,000 (\$10,000 in 2003)
- **Federal Pell Grants**
 - Increase Maximum award by \$300
 - Expand Eligibility for Independent Students
- **Part F Need Analysis**



Economic Growth & Tax Relief Reconciliation Act of 2001

- **Deduction for Educational Expenses**
 - “Above the line”
 - Income limited
 - Annual maximum – \$3,000/\$4,000/\$2,000
- **Student Loan Interest Deduction**
 - Eliminates 60-month rule
 - Higher income phase-outs
 - Any interest paid
- **Employer-Provided Educational Assistance**
 - Graduate/professional education
 - Permanent exclusion

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EGTRRA (cont'd)

- **Marriage Penalty Relief**
 - Lower marginal rates
 - Earned Income Tax Credit
- **HOPE/Lifetime Learning Tax Credit**
 - Coordinate with other tax benefits
- **Coverdell Education Savings Accounts (formerly Education IRAs)**
 - \$2,000 annual contribution limit
 - Contributions from employers/others
 - K-12 educational expenses
 - Higher income phase-outs
 - Coordinate other savings plans benefits

EGTRRA (cont'd)

- Qualified Tuition Programs – Section 529
 - Tax-free distributions
 - Pre-paid plans developed by educational institutions
 - Expanded eligible expenses
 - Increased flexibility
 - Compatible with HOPE/Lifetime Learning tax credits

General Rules

- No financial aid can be included in the calculation of the EFC. However, whether it is taxed or not does not affect whether it is treated as a resource or EFA
- If an award is considered employment according to federal or state laws or regulations, it must be treated as employment for purposes of determining eligibility for Title IV aid

Real Life

Tax Credit Beneficiaries Are “Held Harmless”

- Federal Need Analysis Excludes Amount(s) From the Calculation of “Total Income”
 - Reported on 2002-2003 FAFSA “Worksheet C”
 - Amount(s) Not Included as “Untaxed Income and Benefits”
- Excludes as a Resource/Estimated Financial Assistance

Real Life (cont'd)

Work: Income or Other Financial Assistance?

- Need-based employment
- Non need-based employment
- An educational benefit that is contingent upon enrollment (except non need-based employment)
- Fellowships and assistantships
- Scholarships with work/service component



Clarification: Fellowships & Assistantships (as well as all other awards)

- Award (or portion of award) that is treated as employment and **not** based upon need is:
 - **not** considered a resource or EFA;
 - treated as income just like any other employment earnings of the student
 - that income should be included in the AGI on the student's next financial aid application for inclusion in the calculation of the EFC

Clarification (cont'd)

- Award (or portion of award) that is treated as employment and **is** based upon need:
 - **is** considered a resource or EFA;
 - if included in AGI, then list on Worksheet C as exclusion to income for calculation of the EFC

Clarification (cont'd)

- Award (or portion of award) that is not employment (regardless of whether it was based on need):
 - **is** considered a resource or EFA;
 - if included in AGI, then list on Worksheet C as exclusion to income for calculation of the EFC



Special Note

- 2002-2003 FAFSA Worksheet C is not clear regarding fellowship and assistantship amounts that were non need-based employment. Those should not be included on the worksheet as exclusion to income
 - Such amounts that were correctly not treated as resources and EFA in the prior year need to remain as income that will be part of the 2002-2003 EFC calculation. As such, they should not be included in Worksheet C as exclusions from income.
- Schools may elect to review line items #46 and #80 (ISIR fields #51 and #85) to ensure correct information is reported. Specifically, exclusions in those items may mistakenly include earnings not treated as resources and EFA in the prior year.

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Additional Information

www.house.gov/rules/1836_sum.pdf

- Summary of the *Economic Growth and Tax Relief Reconciliation Act of 2001*

www.irs.gov/forms_pubs/pubs.html

- IRS Publication 520, *Scholarships and Fellowships*
- IRS Publication 590, *Individual Retirement Arrangements (IRAs)*
- IRS Publication 970, *Tax Benefits for Higher Education*

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Contact Information

Dan.Madzelan@ed.gov

Anthony.Jones@ed.gov